

Washington State Auditor's Office

Audit Report

Audit Services

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DEPARTMENT OF GENERAL ADMINISTRATION

Agency No. 150

July 1, 1995 Through June 30, 1996

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DEPARTMENT OF GENERAL ADMINISTRATION

Agency No. 150

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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of General Administration included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Department of General Administration.

Brian Sonntag, CGFM
State Auditor

December 31, 1996

Schedule Of Findings

1. The Department Of General Administration's (GA) Office Of Motor Vehicle Services (OMVS) Needs To Improve Its Statewide Information System So That Complete, Accurate Data Is Available For Use In Management Of The State's Passenger Motor Vehicles

The Department of General Administration has developed a statewide information system intended to provide data for management of the state's passenger motor vehicles. However, it does not contain complete, accurate data needed for analysis, and reporting.

RCW 43.19.554 states in part:

. . . general administration has the following powers and duties:

(a) To develop and implement a statewide information system to collect, analyze, and disseminate data on the acquisition, operation, management, maintenance, repair, disposal, and replacement of all state-owned passenger motor vehicles. State agencies shall provide the department with such data as is necessary to implement and maintain the system. The department shall provide state agencies with information and reports designed to assist them in achieving efficient and cost-effective management of their passenger motor vehicle operations.

Resources for the OMVS to gather and analyze data and provide reports in compliance with the provisions of the RCW have been eliminated. Also, information provided by other state agencies is not complete.

Without complete, accurate information, improved management of the state's passenger motor vehicle fleets may not be realized. Potential annual savings in excess of \$1,000,000 was cited in the 1988 efficiency commission report, which was the basis for the enactment of RCW 43.19.554.

We recommend that GA improve its statewide information system so that complete, accurate data is available for use in management of the state's passenger motor vehicles to fulfill the legislative intent of RCW 43.19.554.

Auditee's Response

We disagree with the finding for the following reasons:

a. The Legislature specifically eliminated the funding of this office. *The adopted legislative budget provides specific reference to the legislative intent to abolish OMVS and to accept the Efficiency Commission's conclusion that the recommendations which were codified in RCW were satisfied.*

Through budget proviso, which was voted upon by the Legislature and accepted as budget law, the Legislature specifically stated this conclusion:

Staffing levels for this office are reduced, reflecting the completion of products recommended by the Efficiency Commission.

b. The RCW does not mandate that the data be complete (i.e., exhaustive); it requires sufficient information to assist in management of vehicle operations. The RCW requires a "state-wide information system to collect, analyze and disseminate data." It further requires state agencies to provide data as necessary. It does not specify that the data must include every vehicle in state operation. As the audit draft notes, we have had a system with data which has been utilized for analysis on statewide practices, and we believe the data sample is sufficiently large to meet the intent and the statistical validity of analysis.

c. The Motor Pool has initiated analysis with the data to analyze cost-effective fleet management. Several critical fleet management policies are being analyzed through statistical review of the sample pool of vehicles. These results are still in the preliminary stages and further analysis is required, yet the results will be shared on a state-wide basis as is the intent of the statute. Specifically, fleet management policies regarding life cycle, replacement cycles, and surplus replacement values have currently been completed in draft form.

In summary, we believe (1) that we have met the intent of this statute through collection of a sufficient sample size to allow statistically valid analysis of fleet practices, and (2) that we have utilized this data to analyze practices for state-wide consideration as intended by the statute.

Auditor's Concluding Remarks

We do not agree with the agency's response.

- a. The response states that the Legislature eliminated funding of this office. However, as stated at the exit conference, budget provisos do not change laws.
- b. The response states that the current data is sufficient information to assist in management of vehicle operations. The system has been dropped altogether and no data is available currently. We do not consider this "sufficient information." In addition, OMVS staff told auditors that the information obtained was never sufficient and that the system contained inaccurate, incomplete information that was useless. They told auditors that was why GA decided to drop the whole system.
- c. The response states that the motor pool has initiated analysis with the data, to analyze cost-effective fleet management. The analysis referred to in this response is entitled, "Auction Privatization & Replacement Strategies." Although this may be a good fleet management tool, it is specific to decisions regarding privatization of auctions (the conclusion on this issue was that a decision should be delayed) and to vehicle replacement strategies. It does not address other issues such as normal operations, repairs, etc., which the statewide information system was to include, per RCW 43.19.554(a).

We reaffirm our finding. We recommend that GA improve its statewide vehicle information system or seek legislation to remove this statute.

2. The Department Of General Administration (GA) Should Comply With State Contracts Relating To The Assessment Of Late-Delivery Penalties

GA did not deduct the \$6,630 penalty from a dealer invoice upon the late delivery of vehicles purchased through state contracts, nor was an extension of time authorized.

The State of Washington Office of Financial Management (OFM) *Policies, Regulations and Procedures* manual Section 2.2.3.2.2.a states:

Goods and services are not to be ordered or paid for unless they are provided by authorized vendors and within the limitations prescribed by:
(1) the Department of General Administration pursuant to RCW 43.19.19,
or (2) other statute.

State Contracts No. 95594, No. 95694, and No. 95894 from which GA purchased vehicles state:

. . . Dealer and the State have agreed to the Specifications attached.

Section 10 of the Specifications for State Contracts No. 95594, No. 95694, and No. 95894 states:

. . . All vehicles are to be delivered within the maximum number of days specified on the contract . . . The dealer also agrees to pay a late-delivery assessment for any delay in delivery or receipt of correct paperwork exceeding fourteen (14) calendar days beyond the required delivery date shown on the State purchase order in an amount of \$5.00 per working day (M-F) per vehicle . . . Any such late delivery assessment will be deducted from the dealer's invoice(s) prior to payment . . . The dealer shall not be responsible for delays in delivery due to force majeure . . . provided the Purchaser and the Office of State Procurement Contract Administrator are notified in writing . . . Any damage assessment or extensions of time are to be authorized and documented by written purchase order changes issued by the Office of State Procurement.

GA management believed that the dealer was not responsible for delays in delivery due to force majeure and could, therefore, receive an extension of time. However, the date of the event causing force majeure (i.e., strike, shortage, etc.) was subsequent to the guaranteed delivery date. Therefore, it would have no effect on the dealer's ability to meet the original guaranteed delivery date.

Dependably accurate delivery lead times are critical to the efficient operation of the agency's vehicle fleet. The disregard of deductions of late-delivery penalties from dealer invoices results in increased expenditures to the state.

We recommend that GA comply with state contracts relating to the assessment of late-delivery penalties.

Auditee's Response

We disagree that a calculation of a penalty is appropriate, and disagree that this resulted in material cost or inefficiency to the motor pool.

a. The contract intention was to allow agencies the option of assessing the penalty. *The specific intention of the penalty clause in the contract is listed in the first sentence of that clause. The contract*

author stated the intention in the initial statement as follows: "Dependably accurate delivery lead times are critical to the efficient operation of the Purchaser's fleet." The penalty is designed for the Purchaser, where needed, to maximize the efficient operations of the Purchaser. It is intended to be a tool available to the Purchaser to enforce delivery when it materially affects the operations of the Purchaser.

Further, during contact negotiations, the contract author specifically clarified the intention of the clause to be discretionary on the part of the Purchaser. The Contract Administrator also provides annual verbal review of this clause with motor fleet managers in the state during an annual meeting to review the contract. GA application of this clause is consistent with that instruction.

b. The state did not incur damage as a result of the late delivery. The contract provides the Purchaser the ability to collect the late penalty fee with the specific reference to "calculation of damages." The intent is to qualify damage that may have resulted to the state due to delay. In fact, the GA Motor Pool did not realize any damage through the delay itself. (1) Revenue for the existing rolling stock continued without interruption, and the new vehicles would not have increased revenue for the Motor Pool. (2) The payment for the vehicles did not occur until after delivery, so there was no interest charge required for funds that were available and no loss in income. (3) Data indicate that the older vehicles did not increase maintenance costs from the prior year, so no damage occurred through interim delayed replacement. (4) Finally, the late delivery did not interrupt workload, schedules, or project work to note damage in any other respect since the original vehicles were still in service. In summary, there was no damage to the state as a result of the delay.

c. Late Delivery of vehicles has a counterpart savings for the state. While the delayed delivery results in continued operation of older vehicles, there are some costs that are not incurred until replacement vehicles arrive: (1) interest accumulation on the cash funds that are available for purchase continue to accrue until delivery is made, (2) occasionally, vehicles can increase in value as they await surplus given certain market conditions (due to a relatively short delay, no loss in surplus value can be calculated), and (3) in certain instances, the Motor Pool received a 1996 model instead of a 1995 model. This 1996 model was provided at no additional cost to the state, yet has a higher value to the state than the 1995 vehicles. In short, these particular delays did not result in loss to the state.

d. General Administration provided verbal acceptance of the cause force majeure for the delay. We agree that we failed to provide the specified written documentation in the file. However, we did provide verbal acceptance of the delay. Further, there was specific written notice from the supplier and notes from the Contract Administrator regarding acceptance of the cause. While we did not have the full supporting documentation specified in the contract, the verbal acceptance was provided for the delay.

The Contract Administrator is provided full authority for determining whether a cause will be considered excusable. In this case, the Contract Administrator accepted the cause. The contract allows the Contract Administrator to "deem the cause excusable." Determination of excusable cause is within the judgment and discretion of the Contract Administrator as specified by the contract. While the auditor notes that various causes were not immediately obvious to the satisfaction of the auditor, the Contract Administrator is nevertheless provided with the discretion to make that determination.

We agree with the auditor on several comments, and we have initiated action to resolve those comments:

1. The force majeure cause noted in the documents does not match consistently with the dates indicated. However, the Contract Administrator retains the discretion to make that determination within the contract language. To respond, GA has initiated discussion with other state agencies to clarify force majeure and delay penalty practices;

2. *The acceptance of the force majeure[e] delay was not in writing. Any future occurrence will follow the written documentation requirements.*

3. *Finally, the wording of the contract can cause varied interpretation regarding the discretion of the Purchaser to impose the penalty. GA will clarify that language in the upcoming contract bid.*

In summary, the calculation of penalty is not appropriate since (1) the force majeure[e] cause was accepted, (2) the state did not incur loss due to the delay, and (3) that this issue is not substantial to the state. Therefore, we offer the corrections identified above and request this item be removed as a Finding.

Auditor's Concluding Remarks

We do not agree with the agency's response.

- a. The response states that the contract intention is to allow agencies with the option of assessing the penalty. The actual contract does not indicate that this is an option. Instead, it states:

The dealer also agrees to pay a late-delivery assessment for any delay in delivery . . .

. . . Purchaser is to call the Office of State Procurement . . . with the actual delivery date for calculation of damages.

Late delivery assessment will be calculated starting with the first working day after the guaranteed delivery date . . .

A purchase order change notice will be issued . . . to document the late delivery, assessment of liquidated damages, and authorize the reduced payment.

There is no section in the written contract that indicates that an option exists. Perhaps the Office of State Procurement would consider changing the wording of the contract if this is the intention.

- b. The response states that no damage was incurred as a result of the late delivery. We did not state in the finding that any damage was incurred. Instead, the finding states that, "The disregard of deductions of late-delivery penalties from dealer invoices results in increased expenditures to the state." This is related to the contractual liability the dealer has to GA when vehicles are delivered after the guaranteed delivery date, as defined by contract.
- c. The response states that the late delivery of vehicles has a counterpart savings for the state. The first part states that interest accumulates on the cash funds. Any interest that may have accrued to the state would be significantly less than the penalties that were not assessed. The second argument related to the value of surplus vehicles, is very subjective. We will not attempt to predict market conditions. The third issue related to the vehicle model is clearly addressed in the contract. The contract states, "In the event vehicles ordered during the contract term become unavailable and cannot be supplied out of the current year production, a vehicle deemed by the State and Purchaser to be equal must be supplied." This is a requirement of the dealer, per contract, regardless of whether vehicles are delivered late or on time. This is a separate issue and is not related to the late delivery assessments. Overall, the disregard of deduction of late-delivery penalties has not caused savings for the state. The arguments discussed above (accrued interest and value of surplus vehicles) do not exceed the \$6,630 which GA was contractually entitled to collect, and did not collect.

- d. The response states that GA provided verbal acceptance of the cause force majeure. The cause of force majeure could not have been verbally accepted in advance of the guaranteed delivery dates, as required by contract, because the events assumed to have caused force majeure had not even occurred prior to the guaranteed delivery date. For example, one of the vehicles ordered by GA was guaranteed to be delivered, per contract, by May 24, 1995. The event which supposedly caused force majeure (a strike) happened between September 7, 1995 and October 7, 1995. The strike occurred more than three months after the guaranteed delivery date. Therefore, there was no force majeure at all. We could find no incidents that caused the vehicles not to be delivered by the guaranteed delivery dates. Also, at the time of testing, the contract administrator stated that he did not approve any extensions (verbal or written) related to the purchase orders in question because, per contract, it was the Purchaser's responsibility (GA's motor pool) to contact him, which was not done.

We reaffirm our finding. We will review this matter during the course of our next audit.

3. The Department Of General Administration (GA) Should Comply With State Requirements For Employee Recognition Awards

Employee recognition awards with a total value of \$7,738 were given to GA employees, including the former director, without specifically identifying employee accomplishments.

RCW 41.60.150 states in part:

. . . agencies shall have the authority to recognize employees for accomplishments including outstanding achievements, safety performance, and longevity.

RCW 41.60.160 states:

No award may be made under this chapter to any elected state official or state agency director.

GA believed that employee awards could be given to employees as recognition for their work during the year.

Awards to employees that do not meet statutory requirements constitute an unauthorized use of state funds.

We recommend that employee recognition awards be given only in situations identified in the statute.

Auditee's Response

We will comply with your interpretation of RCW 41.60.250 and will not give employee recognition awards to employees without identification of specific accomplishments. We are also sharing your interpretation with this statute with other state agencies so they can be aware of it.

Auditor's Concluding Remarks

We appreciate the agency's response to this issue. We will review this matter during the course of our next audit.

4. The Department Of General Administration (GA) Should Develop And Maintain An Index Of Certain Public Records

In January 1996, GA was notified by the Office of the State Auditor that they did not maintain an index of certain public records as required by law.

RCW 42.17.260 (3) states:

Each local agency shall maintain and make available for public inspection and copying a current index providing identifying information as to the following records issued

The lack of an index limits access to information. Access to information concerning the conduct of government on every level must be assured.

The agency did develop an index of public records and provided a copy to us in November 1996, which was prior to the end of audit fieldwork. However, this index was not developed timely.

We recommend that GA implement audit recommendations in a more timely manner in the future.

Auditee's Remarks

The Public Record Index was completed prior to the end of the audit period, and it exceeds the information required by statute. The index and corresponding information is readily accessible through Internet and our public Fax-On-Demand system, minimizing the cost to the public. However, we agree that this audit recommendation should have been implemented more quickly than it was, and we will strive for prompt implementation in the future.

Auditor's Concluding Remarks

We appreciate the actions taken by GA.